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National Intelligence Daily Cable for Wednesday May 25, 1977.

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The NID Cable is for the purpose of informing senior US officials.

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ARAB STATES: Reaction to Israeli Election

25X1 [ ] Arab leaders are predictably apprehensive about the Likud Party's election victory in Israel. Party leader Begin's tough statements about retaining portions of Israeli-occupied territories have fueled Arab media attacks on the Israeli leaders, who are characterized as being intransigent. The more moderate Arabs, however, are determined to maintain the momentum toward a negotiated solution to the Arab-Israeli problem and are emphasizing the need for increased US pressure on Israel.

25X1 [ ] Despite pessimism in Arab media, as well as some gloomy private remarks by officials, moderate Arab leaders apparently are determined not to overreact and thereby raise new obstacles to US Middle East peacemaking efforts. The moderates, such as Egyptian President Sadat, are publicly saying that nothing has really changed because all Israeli leaders take a hard line on settlement issues.

25X1 [ ] These leaders maintain that the US still holds the key to exacting concessions from Israel, and that it is up to Washington to ensure that a new Israeli government does not block peacemaking efforts. Some Arab commentators have even called the Likud victory a positive development because it firmly establishes the intransigent nature of Israeli leaders, and thus will force the US and other Western powers to apply pressure on Israel to make the compromises necessary for peace.

25X1 [ ] These themes are intended by the moderate Arab leaders to reassure their constituents that the decision to pursue a resumption of negotiations was correct despite the results of the Israeli election. The Arabs also seem to be serving notice to the US that it must act even more decisively to save the peace process. The moderates are further underscoring the need for continued political efforts by warning that if the diplomatic offensive becomes hopelessly bogged down they will turn to more forceful means to restore Arab rights.

25X1 [ ] Threats of renewed warfare or use of the "oil weapon" may also be intended to parry the criticism by Arab militants who have steadily opposed any peaceful settlement with Israel. The militants probably feel strengthened by Begin's victory and the prospect of an Israeli government willing to offer little or no compromise to the Arabs.

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[ ] The Iraqis, for example, have welcomed the Likud victory as confirming their view of Israel as an "expansionist entity." They seem to expect the election results will lead to the collapse of settlement efforts and the consequent weakening of Arab leaders who favored negotiations, and that Iraq's influence will grow in the Arab world. The Iraqi leadership may also see Begin's victory as a chance to test Washington's commitment to the principle of Israeli withdrawal from occupied territories.

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[ ] Moderate Palestinians probably are concerned about the enhancement of "rejectionist" influence, particularly within their ranks. One medium-level Palestinian official said that the election results weaken the general line of moderation within the Palestine Liberation Organization. Another stated that war was now more likely in the Middle East.

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[ ] The Soviets, meanwhile, are trying to exploit Arab apprehension about the Likud victory. *Pravda* has charged that Begin will be "more rigid" than his predecessors and that Likud has an "openly expansionist platform." *Izvestia* and Soviet Arabic-language broadcasts have concentrated on Begin's remarks in order to argue that the search for a political settlement will be more difficult and the chance for renewed hostilities greater.

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[ ] The Soviet leaders will presumably welcome the effect of Begin's victory, which they see as isolating the US as a supporter of Israel and complicating US diplomatic efforts in the area.

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#### SPAIN: Basque Prisoners

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[ ] *The Spanish government's decision last weekend to send five Basque prisoners into exile appears to have calmed the situation in the Basque provinces, where demonstrations demanding amnesty for "political prisoners" had overshadowed and unsettled pre-election politics. Terrorists remain intent on upsetting the election process.*

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[ ] The five Basque prisoners were freed by Prime Minister Suarez on the condition that they accept exile; they arrived in Brussels on Sunday. All of the 18 remaining Basque

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prisoners, most of whom were jailed for acts of terrorism, have taken the first steps in having their cases processed. They have formally requested pardons or, failing that, exile.

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[ ] The major Basque political parties have characterized the decision to exile the most controversial prisoners as less than the full amnesty they wanted, but have publicly acknowledged that the government's move has calmed the situation. Both the Basque Nationalist Party and the Basque Socialist Party have affirmed their intention to participate in the parliamentary election on June 15. Even some of the more radical Basque groups, which had earlier announced their withdrawal from the contest, are now having second thoughts.

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[ ] The Basque Fatherland and Liberty organization, or at least some faction of that terrorist group, seems intent on making a last-ditch attempt to derail the election process. A member of the group reportedly called a radio station to take credit for the kidnaping last week of a conservative Basque industrialist as well as for the murder of a policeman in San Sebastian on Thursday and vowed that the Fatherland and Liberty group would continue its armed struggle. The Basque Nationalist Party asserts that it has information that "ultra-left Basque elements" are planning to kidnap a senior party leader.

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[ ] Right-wing terrorists also have an interest in seeing the pre-election atmosphere disturbed and have recently become more active--especially in the Basque region, where they have retaliated for Basque terrorist actions. With the Basque parties, as well as the Communists and Socialists, calling for an end to the violence, the terrorists have little chance of seriously disrupting the election and the continued dismantling of Francoist institutions.

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FRANCE: Socialist Economic Plans

*[redacted] //Leaders of France's opposition alliance--Socialist Francois Mitterrand, Communist Georges Marchais, and left Radical Robert Fabre--met last week to update their "common program." Economic problems, the most difficult for the alliance, may have to be resolved at another summit.//*

*[redacted] //Mitterrand, who used the summit meeting to underscore his leadership of the alliance, does not want any major additions to the coalition's program, fearing that such changes might cost the left the crucial swing votes that it needs to win the March 1978 legislative elections. Mitterrand's tough stance was prompted in part by his annoyance at the Communists for publishing an extravagant cost estimate of the common program, which he publicly disavowed. The Communists said the*

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program would entail an enormous increase in government expenditures that would be financed largely by taxing gains in business efficiency.//

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[ ] //Socialists consider these estimates to be hopelessly unrealistic and believe that the Communists published the estimate in order to gain publicity, detract from Mitterrand's reputation as leader of the left, and from "sheer nastiness." Mitterrand made it clear that the Socialists are prepared to make only a limited number of compromises, implying that these do not include many of the changes in the program that the Communists want.//

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[ ] //The Socialists, who are trying to reassure French businessmen about the left's intentions, hold the trump card of greater electoral strength; their partners cannot come to power without them.//

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[ ] //The sharpest clash will come on the issue of nationalization. Mitterrand will not agree to the Communist proposal that the steel and automobile industries be added to those slated for nationalization. There is also sharp disagreement on the related issue of compensation for shareholders in nationalized firms. The Socialists would give the shareholders new non-voting stock, thus allowing them to continue sharing profits but not control.//

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[ ] //The Communists want compensation to be in the form of fixed-income bonds. A possible compromise might be to give shares, not in individual companies, but in a national industrial trust.//

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[ ] //The two parties should be in closer accord on unemployment, which has become a far more important issue since the original common program was drafted in 1972. Both agree that unemployment--currently averaging about 1 million--must be reduced substantially but differ as to what is attainable. The Communists have mentioned a target of 200,000 unemployed by 1980; the Socialists doubt that joblessness can be cut below 500,000. Even the Socialist goal is optimistic: it assumes creation of 500,000 jobs during the first year of a leftist government.//

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[ ] //Although foreign exchange controls are not likely to be mentioned in the common program, the Socialists intend to impose them immediately in order to impede capital flight. The specific measures will be kept secret until the left is in power so that methods of evasion cannot be devised in advance. A likely possibility--used by past French governments--would be to impose a punitively high exchange rate on the transfer of financial assets out of France.//

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[ ] The Socialists plan to permit foreign banks to continue operating in France--albeit under close surveillance--in part because of the access they provide to the international capital market. Socialist economists believe Paris may have to borrow abroad during the first two years of a leftist government to offset capital outflows. Foreign banks would be expected to disallow any large-scale transfers, which presumably would be made to evade controls on French banks.

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[ ] The summit set up a 15-member working group charged with reaching a consensus on those issues where it is possible and laying the groundwork for final negotiation at the summit level on those issues where no agreement can be reached. The deadline for the completion of the group's work is early July.

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[ ] //Economic problems will be the most difficult for the alliance to resolve. Such matters as the extent and timing of nationalizations and the priorities to be accorded economic and social programs will probably have to be resolved at another summit. Each partner in the alliance will put up a stiff fight for the revisions it wants, but none will push to the breaking point with legislative elections only 10 months away.//

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OECD: Export Promotion

25X1 [ ] //Efforts by industrialized countries to discourage import barriers have prompted many governments to adopt new measures to promote exports. Adoption of such measures is not limited, however, to countries with the most severe trade and payments problems.//

25X1 [ ] //Italy and the UK, which are among those counting most heavily on export-led growth, are doing little more than others. The Japanese, who pushed economic recovery with exports last year by rapidly expanding official credits and by slowing yen appreciation, are now concentrating on sales of whole plants to less-developed countries. Tokyo is still expanding official export credits but at a much lower rate than a year ago.//

25X1 [ ] //Meaningful quantification of programs is difficult. West Germany, for example, appears to be giving more new official credit guarantees to exporters than France, which has a sizable trade deficit. Paris, however, still gives incentives to a much greater share of exports than does Bonn.//

25X1 [ ] //Since the beginning of this year, several governments have expanded export credit facilities for underwriting both buyer and supplier credits. West Germany has raised its funding ceiling by \$44 billion, an increase of \$14 billion, citing increased demand by German exporters for official guarantees on export contracts, particularly those with the Soviet bloc and members of the Organization of Petroleum Exporting Countries.//

25X1 [ ] //The UK recently raised the funding limit on its Export Credit Guarantee Department by \$12 billion, to \$45 billion, with a provision for an additional increase of \$27 billion. London also will begin extending foreign currency loans directly to overseas buyers of British goods.//

25X1 [ ] //The Netherlands plans a 30-percent increase in loan guarantees for exports of capital goods and will begin subsidizing private chamber of commerce operations abroad. Austria's cabinet has approved measures enlarging official export financing facilities and lowering interest rates on export loans.//

25X1 [ ] //Other programs run the gamut from investment incentives for export industries to export inflation insurance schemes. Paris recently authorized an additional \$600 million in concessionary loans to small- and medium-sized firms that meet specific export sales targets. Japan is offering an insurance scheme to cover performance bonds for plant exports to developing countries. Portugal has joined the ranks of countries providing export insurance to cover the risks of exchange rate fluctuations and increased production costs.//

25X1 [ ] //The Spanish government has tailored its new foreign investment law to promote exports; one of the conditions for greater than 50 percent foreign equity participation in a new or existing company is that at least half of output must be exported. Madrid also is considering increasing tax concessions for exporters.//

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[ ] //A number of countries have selected target areas for major sales promotion efforts. The French have just launched a campaign aimed at doubling exports to the US by 1981. Sponsored by the French manufacturers' association and strongly backed by the government, the drive will involve at least 12 trade missions to the US, including the one earlier this month led by Foreign Trade Minister Rossi.//

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[ ] //Italian cabinet ministers--in a departure from previous practice--are also on the road in search of markets. Since the beginning of this year, foreign, industry, or trade ministers have visited the USSR and numerous OPEC capitals suggesting government-to-government barter arrangements under which Italy would offer goods, services, and technology in exchange for natural gas and oil.//

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[ ] //Japan has pulled back from government-to-government deals; Japanese companies were unable or unwilling to follow through on the deals government officials negotiated with Iraq and Iran after the oil embargo.//

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[ ] //Italy is trying in a small way to emulate Japanese trading companies. Some large Italian firms and banks have for years been forming consortia for major overseas construction projects; now Italy's state petroleum company has asked government approval to form a separate trading company.//

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[ ] //The British also have made some limited institutional changes aimed at boosting exports. In January, Britain's nationalized industries formed a joint export group to offer consultation and project management and to set up turnkey projects for consortia of state and private sector companies. The National Enterprise Board, established last year to provide investment aid to industry, is forming a subsidiary company, In-sac Data Systems, to market computer software abroad.//

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[ ] //Most governments are careful to avoid unseemly competition for export markets, although they are aware that international political reactions are less severe on that count than those generated by protectionist measures. Export inflation insurance programs are being scrutinized now by a General Agreement on Tariffs and Trade working party to determine whether they operate as subsidies to exporters and thereby violate GATT rules.//

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[redacted] //Governments of all the major industrial countries have agreed to abide by guidelines aimed at reducing competition among export credit agencies. The guidelines set terms for the maximum maturity of credits and for minimum downpayments and interest rates. Austria, Spain, and Greece, have not joined the consensus; Austria's plan to lower interest rates for export credit is in fact contrary to it. The guidelines are due to expire at the end of June, but most major countries seem inclined to extend them for possibly six months before making any changes. [redacted]

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#### SWEDEN: Labor Problems

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[redacted] //Sweden is facing its worst labor difficulties in almost 70 years, and the threat of a general strike is growing. If the Swedish employers' association goes ahead with its planned lockout of selected white collar workers scheduled for midnight tonight, the white collar unions will retaliate with a major strike on June 1. Such a strike would paralyze most of Sweden's industry within a few days and probably force the government to take the unpopular step of imposing a settlement.//

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[redacted] //Talks on a new wage agreement and employee benefits have dragged on since January. Some tentative agreements with blue collar unions might not survive if the situation deteriorates. The center-right government of Prime Minister Falldin so far has refused to prevent the lockout. Some government spokesmen have admitted, however, that the government has the responsibility to intervene if the strike becomes a general one.//

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[redacted] //The solution will not be easy. Industry already suffers from low productivity and extended strike activity will force productivity even lower. Moreover, increasing production costs, caused in part by spiraling wages, have cut into industry's domestic and foreign markets.//

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[redacted] //The question of whether the labor problems could be better handled by the opposition Social Democrats is sure to plague the present coalition. The government is already in trouble over Falldin's policy opposing nuclear energy development. The nuclear issue was expected to come to a head next

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year, possibly after a referendum on the subject. If Sweden is plunged into a lengthy general strike, however, the present government may not be around for a hearing on nuclear energy.

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